OMAN

The Department of State submitted this report to the Senate Committees on Foreign Relations and on Finance and to the House Committees on Foreign Affairs and on Ways and Means, on January 31, 1999.

Key Economic Indicators

(Billions of U.S. Dollars unless otherwise indicated)

	1996	1997 1/	1998 2/
Income, Production and Employment:			
Nominal GDP 3/	15.3	15.8	14.4
Real GDP Growth (pct) 3/	4.2	2.9	-8.9
GDP by Sector:			
Agriculture & Fisheries	0.4	0.4	0.4
Petroleum	6.4	6.3	4.3
Manufacturing	0.6	0.6	0.7
Services 4/	7.6	5.8	6.4
Government Services 4/	1.8	1.8	1.6
Per Capita GDP (US$)	6,526	6,860	6,243
Labor Force (000s)	780.5	780.5	780.5
Unemployment Rate (pct)	N/A	N/A	N/A
Money and Prices (annual percentage growth):			
Money Supply Growth (M2 Jan-Dec) 5/	8.1	24.5	-1.2
Consumer Price Inflation 6/	0.2	0.4	-0.1
Exchange Rate (Omani Rial/US$)	2.6	2.6	2.6
Balance of Payments and Trade: 7/			
Total Exports FOB	7.3	7.6	5.6
Exports to U.S. (US$ millions) 8/	447.4	251.8	240.1
Total Imports CIF	4.6	5.2	5.7
Imports from U.S. (US$ millions) 8/	201.9	403.3	293.9
Trade Balance	2.7	2.4	-0.1
Balance with U.S. (US$ millions)	245.5	-151.5	-53.8
External Public Debt	2.9	3.0	N/A
Fiscal Deficit/GDP (pct)	4.5	0.2	4.6
Current Account Deficit/GDP (pct)	0.7	7.0	N/A
Debt Service Payments/GDP (pct)	2.1	2.0	N/A
Gold and Foreign Exchange Reserves 9/	2.0	2.1	1.8
Aid from U.S. (US$ millions) 10/	0.1	0.2	0.2

Aid from Other Sources	N/A	N/A	N/A

1/ All 1997 GDP data is provisional.

2/ 1998 estimates are annualized based on January-June data from the Central Bank of Oman and the October 31, 1998 Ministry of National Economy statistical bulletin unless otherwise indicated.

3/ The 1998 GDP growth rate was determined by annualizing the January-June 1998 GDP, using October 31, 1998 statistics published by the Ministry of National Economy.

4/ Health and Education are included in services, although most government-provided. services shown are current (not capital) expenditures for public administration and defense.

5/ 1998 money supply data is based on January through June 1998. Source: Central Bank of Oman.

6/ Muscat Governate CPI.

7/ The trade balance with the U.S. does not include Omani oil purchased by the United States on the spot market. Trade data does not necessarily include all U.S. exports subsequently reexported to Oman from Dubai, UAE, primary entrance point for most U.S. goods to the southern Arabian Peninsula.

8/ 1998 trade data is annualized using January-September 1998 figures from the U.S. Department of Commerce.

9/ Data represents Central Bank assets. 1998 data is June 30, 1998 balance. The State General Reserve Fund does not publish its holdings.

10/ Funding for International Military Education and Training (IMET) program.

Sources: Central Bank of Oman, Ministry of National Economy. Bilateral trade data is from U.S. Department of Commerce.

1. General Policy Framework

The Sultanate of Oman is a nation of 2.3 million people (including as many as 750,000 expatriates) living in the arid mountains and desert plain of the southeastern Arabian Peninsula. Oman is a small oil producer and ranks 18th in the world for overall oil production. In 1998, Oman cut oil production to 820,000 barrels per day (in line with OPEC production cuts although Oman is not a member of OPEC), in response to the ongoing oil price slump, which saw a 39 percent drop in the value of Omani oil exports in the first six months of 1998. Oil revenue accounted for 76 percent of government revenues in 1997. In step with rising oil prices at the time, Oman's per capita GDP rose from about $6,500 in 1996 to $6,860 in 1997. However, falling oil prices in 1998 will likely bring about negative GDP growth and a corresponding drop in per capita income. Preliminary figures released by the Ministry of National Economy indicate negative GDP growth of about -9 percent for 1998 and a drop of per capita income to approximately $6,200. These preliminary 1998 figures also indicate a decrease in total exports and increase in imports nearly reducing Oman's trade surplus to zero from $2.4 billion in 1997, and a drop in oil revenue of -24.9 percent for January through September 1998, compared to the same period in 1997.

A significant proportion of Oman's rural population lives in poverty. Annual population growth, estimated by the government to be about 2.5 percent, nearly matched GDP growth in 1997, which was 2.9 percent, and presents an ever greater demand on infrastructure. It is estimated that 53 percent of the Omani population is under the age of 15. Therefore job creation and "Omanization," i.e., transfer of expatriate jobs to Omanis, are major government priorities.

The Omani Government links developmental priorities and budgetary plans in five-year planning exercises. Oman's Fifth Five Year Plan, 1996-2000, laid out a program designed to shift economic development from governmental to private initiative; diversify the national economy from dependence on crude oil revenue, primarily through future natural gas sales and light industry; and educate a productive national work force for private employment. Aiming at a zero deficit by the year 2000, stringent annual budgets were planned on the basis of revenue of $15 per barrel of petroleum. The government trimmed the 1996 deficit to $684.6 million, and narrowly missed a balanced budget in 1997, with a deficit of just $47 million. The sharp drop in oil prices in 1998 has necessitated further budget cuts as well as efforts to increase revenue through taxes and duties. Nevertheless, preliminary figures from the Omani Government project a 1998 deficit of nearly $640 million, or approximately 4.6 percent of GDP. Despite fiscal tightening, there is no personal income tax in Oman, and with the exception of the recent introduction of modest fees for medical visits, Omanis continue to enjoy free medical care and free education, including post-secondary school, vocational and higher education.

Among major public expenditure categories in 1997, defense and security accounted for 41 percent of current expenditures (military capital expenditures are not published). Current and capital expenditures for Petroleum Development Oman (PDO) accounted for 5.9 percent of current expenditures.

Oman's economy is too small to require a complicated monetary policy. The Central Bank of Oman directly regulates the flow of currency into the economy. The most important instruments which the bank uses are reserve requirements, loan to deposit ratios, treasury bills, rediscount policies, currency swaps and interest rate ceilings on deposits and loans. Such tools are used to regulate the commercial banks, provide foreign exchange and raise revenue, not as a means to control the money supply. The large amounts of money repatriated from Oman by foreign workers and by foreign companies in Oman help ease monetary pressures but also contribute to current account deficits. Outward workers' remittances decreased by 13 percent in 1997 to $1.5 billion, or 9.5 percent of GDP.

2. Exchange Rate Policies

The rial has been pegged to the dollar since 1973. Since a 10.2 percent devaluation in 1986, it has remained steady at about $2.60 to 1 rial.

3. Structural Policies

Oman operates a free market economy, but the government is at present the most important economic actor, both as an employer and as a purchaser of goods and services. Contracts for goods and services for the government, including the two largest purchasers, Petroleum Development Oman and the Defense Ministry, are done on the basis of tenders overseen by a Tender Board. Oman promotes private investment through a variety of soft loans (currently through the Ministry of Commerce and Industry and, for projects under 250,000 R.O., the Oman Development Bank, reorganized in 1997), tax incentives, modest procurement preferences, and subsidies, mostly to industrial and agricultural ventures. The government grants five-year tax holidays to newly established industries or expansion projects; a one time renewal is possible. Oman has fairly rigorous health, safety and environmental standards, and is attempting to upgrade its enforcement capabilities.

Oman revised its corporate tax structure in October 1996 to encourage foreign investment in joint ventures. It extended national treatment to certain joint ventures, i.e., the 7.5 percent maximum rate of corporate income tax applicable to wholly Omani-owned firms now also applies to public joint venture companies (SAOGs) with no more than 49 percent direct foreign ownership and at least 40 percent of shares publicly traded on the Muscat Securities Market. A graduated system of taxes, with a new ceiling reduced to 25 percent, applies to Omani/foreign joint venture companies with up to 90 percent direct foreign ownership. The tax rate for foreign petroleum companies is set in concession agreements. Most import duties are at the five percent level, none for essentials, higher for some few protected local products. There are no personal income taxes or property taxes. Employers pay 7 percent of a foreign worker's basic salary to a vocational training fund for Omanis, and 8 percent of an Omani's basic salary to a social security fund. The government imposes substantial fees for labor cards, and companies are liable for fines if they do not reach government-specified levels of "Omanization" by the end of target deadlines.

With a 90 MW power project near Nizwa, the Sultanate became the first Gulf Arab nation to turn exclusively to the private sector to finance, build and operate a utility, with title reverting to the government after 20 years. Although Sultan Qaboos has proclaimed 1998 to be the "Year of Private Enterprise," the government made little progress on additional privatization projects in 1998 beyond a BOT tender for a 200 MW power plant in Salalah, expected to be awarded in 1999. Further plans for privatization following the Salalah power project are uncertain. The government has been involved in a number of joint-ventures with private sector firms in major infrastructure projects. November 1998 saw the opening of a world-class container transshipment port at Salalah, Port Raysut, a joint venture between the Omani Government, Sea-Land (U.S.), Maersk Lines (Denmark), and Omani investors under the operating name Salalah Port Services. The container port, already the largest on the Indian Ocean rim, is in close proximity to major East-West shipping lanes and is expected to spur industrial growth in the Salalah area.

A free trade industrial zone adjacent to the port is under government consideration. As of late 1998, construction was ahead of schedule on the $6 billion Oman Liquefied Natural Gas (OLNG) plant at Sur, the largest project of its kind in the region. A joint venture between the Omani Government, Royal Dutch Shell, Total, and Korea Gas, OLNG is expected to begin deliveries in 2000. The 6.6 million ton/year LNG output of OLNG is nearly all sold to Korea, India (an affiliate owned by the U.S. firm Enron), and Japan. Financing on the downstream plant is on a limited recourse basis, with upstream facilities and a 360 km pipeline financed through the corporate developers, principally Royal Dutch Shell. A fertilizer plant, structured as a joint venture between Omani Government and Indian state investors, is among the spinoff industries expected to cluster around the LNG plant. The government is also planning gas-driven projects in the northern Omani port city of Sohar, including a $3 billion aluminum smelter complex (still seeking equity partners) and a $900 million polyethylene plant (a joint-venture with BP).

4. Debt Management Policies

Oman's sovereign debt is estimated at $3 billion. In November 1998, the government began syndicating a new sovereign loan for $300 million via the Gulf International Bank, with syndication expected to close by the end of November. The debt is easily managed and is owed to a consortium of international banks. Oman has a solid reputation for credit worthiness. There are no International Monetary Fund or World Bank adjustment programs. The government gives little publicity to the occasional modest foreign aid that it donates. Sultan Qaboos also makes occasional personal donations to Arab causes, Muslim institutions, or worthy foreign organizations. Oman does not publish figures on the level of its external debt or its fund to meet future contingencies, the State General Reserve Fund (SGRF). The 1998 budget crunch, however, which witnessed a 20 percent drop in oil revenue for the first six months of the year, will likely require a significant draw down of the SGRF.

5. Significant Barriers to U.S. Exports

A license is required for all imports. Special licenses are required to import pharmaceuticals, liquor and defense equipment. Some foreign suppliers have previously complained that exclusive agency agreements are difficult to break. In September 1996, Oman amended its agency law to allow non-exclusive representational agreements. Although currently not a member of the WTO, in 1996 Oman submitted its application for accession and has promised adherence with WTO requirements on intellectual property protection, tariffs and customs valuation before the beginning of year 2000.

Services barriers consist of simple prohibitions on entering the market. For example, entry by new foreign firms in the areas of banking, accountancy, law and insurance is not permitted (except as contracted for specialized services required by the government), although joint ventures for professional services are encouraged between Omanis and foreign firms. The central bank seeks the strengthening and further consolidation of existing banks. It has placed limits on the percentage of the consumer loan portfolio and is pressing for the BIS 12 percent capital adequacy standard. Citibank has a wholly-owned branch in Muscat. Major U.S. engineering and accounting firms are well represented. Omani firms appear quite open to affiliation with U.S. firms. The U.S. firm Curtiss, Mallet-Prevost, Colt & Mosle is the only U.S. law firm with an office in Muscat and serves as legal counsel for the Salalah power privatization tender.

Tax policy discourages wholly foreign-owned firms. Oman attempts to attract foreign firms and investors to participate in joint ventures with Omani majority ownership. It has a case-by-case approach towards major projects by wholly or largely foreign owned firms. For very large strategic projects, Oman may offer foreign investors control commensurate with their investment and risk. The Oman Center for Investment Promotion and Export Development (OCIPED) opened early in 1997 to simplify and expedite investment project realization.

Oman uses a mix of standards and specifications systems. Generally, GCC standards are adopted and used. However, because of the long history of trade relations with the UK, British standards have also been adopted for many items, including electrical specifications. Oman is a member of the International Standards Organization and applies standards recommended by that organization. U.S. exporters sometimes run afoul of dual language labeling requirements or, because of long shipping periods, have trouble complying with shelf-life requirements. U.S. export brokers and Omani trading firms are prone to trade difficulties when deliveries are not made within demanding government tender delivery dates.

Despite requirements to "Omanize" the work force, the private sector depends on a high number of expatriates for managerial, technical, and physical labor.

Oman continues to promote "Buy Omani" laws; this is a slow process as very few locally made goods meeting international standards are available. The Tender Board evaluates the bids of Omani companies for products and services at 10 percent less than the actual bid price, but imported goods and services bid by Omani agents are said to receive the same national preference. Because of short lead times on open tenders, it is often difficult to notify U.S. firms of trade and investment possibilities, and thereafter difficult for those firms to obtain a local agent and prepare tender documents. Foreign firms seeking to compete for open and unpublished tenders find it advantageous to develop relationships with local firms.

Oman's customs procedures are complex. There are complaints of sudden changes in the enforcement of regulations. As part of "Omanization," only Omani nationals are permitted to clear shipments. Processing of shipments at Omani ports and airports can add significantly to the amount of time that it takes to get goods to the market or inputs to a project. Overland shipments from the UAE seldom encounter problems.

In 1995, Oman substantially eased visa requirements by offering two-year multiple entry visas to attract American tourists and business representatives, and since then has tried to issue visas expeditiously. In general, these visas are only issued at Oman's Washington embassy, although U.S. professionals residing in GCC countries can receive multiple-entry visas at the port of entry. Visa denials are not unusual for unaccompanied women tourists and young adult males. In late 1996, the Royal Oman Police reduced non-resident stays from two months to one month per entry, thereby hampering business visits of longer duration by U.S. and by non-U.S. citizen employees of U.S. firms. These visas can only be extended outside Oman, so visitors whose activities keep them here longer than a month face the added expense of a trip, usually to Dubai, for a visa renewal.

6. Export Subsidies Policies

Oman's policies on development of light industry, fisheries, and agriculture aim to make those sectors competitive internationally. Investors in these three sectors receive a full range of tax exemptions, utility discounts, soft loans and, in some cases, tariff protection. The government has also set up an export guarantee program which both subsidizes the cost of export loans and offers a discounted factoring service.

7. Protection of U.S. Intellectual Property

Oman's record on intellectual property protection has improved in recent years, in tandem with its efforts to accede to the World Trade Organization (WTO). As a new member, Oman will have to meet its obligations under the WTO's Trade Related Aspects of Intellectual Property (TRIPS) Agreement immediately upon accession. Oman is a member of the World Intellectual Property Organization (WIPO), and in 1998 declared its accession to the Paris Convention for the Protection of Industrial Property (patents, trademarks and related industrial property) and

Berne Convention for the Protection of Literary and Artistic Works. Nevertheless, the widespread prevalence of pirated software places Oman at odds with the WTO TRIPS agreement, and thereby remains a major obstacle to Omani WTO accession.

Oman has a trademark law which it enforces. It does not, however, protect well-known marks unless they are registered in Oman. Application for trademark protection also requires a local agent. Oman has pledged to begin enforcement of a 1996 Copyright Decree by the end of 1998, protecting copyrighted audiovisual and recorded works and banning the sale of pirated products in these categories. As of late 1998, pirated video and audio cassettes were selling at extremely low prices, as vendors attempted to empty their stocks of pirated works before the December 31 deadline. However, Oman has yet to issue similar protection for software, and sale of pirated software remains rampant, with over 90 percent of the software in use estimated to be pirated works. Government ministries and organizations, including Sultan Qaboos University, are also known users of pirated software. In addition, Oman's neighbors, in particular the UAE, have complained that pirated software and audio and video products are infiltrating their countries from Oman.

Oman affords little or no patent protection in critical areas such as pharmaceutical products. Oman has said it would recognize patents issued by the GCC patent office, but that offer will be of little value until the GCC patent office, which opened in November 1998, is running effectively.

Industry sources estimate that losses to U.S. firms resulting from the sale of pirated products in Oman total approximately $7 million annually. However, this figure does not account for the dropoff in the sale of pirated audiovisual and recordings expected to take place once Oman begins enforcement of copyright protection for these products on January 1, 1999.

8. Worker Rights

Sultan Qaboos issued a Basic Law November 6, 1996 that serves as Oman's first written basic framework, akin to a constitution but consistent with Islamic Shari'a Law. In theory, the Sultanate should have issued legislation implementing the Basic Law's provisions within two years of its issuance. It is unclear whether or how any of the expected implementing measures will affect worker rights.

a. The Right of Association: Articles 33 and 34 of the Basic Law establish the right to assemble and freedom of association when consistent with legal limitations and objectives. Currently, Omanis and resident foreigners alike are free to join only the relatively few officially sanctioned associations.

b. The Right to Organize and Bargain Collectively: Since 1994, the Sultanate has indicated that it is reviewing a new labor law drafted by the Ministry of Social Affairs and Labor. Sultanate officials have characterized its provisions as consistent with international labor standards. It will reportedly contain a provision for the establishment of worker committees in the work place and remove the current prohibition against strikes. Oman is a member of the International Labor Organization.

c. Prohibition of Forced or Compulsory Labor: Compulsory or forced labor is illegal. That said, foreign workers are typically unaware of their right to take disputes over contract enforcement to the Labor Welfare Board or are afraid that questions regarding their employment status will result in deportation.

d. Minimum Age for Employment of Children: The Ministry of Social Affairs and Labor enforces 13 as the minimum employment age. Employers require the Ministry's approval to engage children between 13 and 16 years of age in overtime, night, weekend or holiday, or strenuous work. Nonetheless, small family businesses in practice may employ underage children, particularly in the agricultural and fisheries sectors.

e. Acceptable Conditions of Work: The minimum wage for nonprofessional expatriate workers is about $156 month, less any charges by Omani sponsors for the workers' visas, but does not cover domestic workers, farm hands, government employees, and workers in small businesses. Omani nationals tend to be well protected. Most employed Omanis work for the government, with a 35 hour work week and generous leave of between 42 to 60 days annually plus 9 days emergency leave and Omani holidays. Skilled foreign workers predominate in private sector employment and enjoy regionally competitive wages and benefits. Whether covered by the law or not, many unskilled foreign workers work for less than the minimum wage and for hours exceeding the 40 to 45 hour private sector work week. The temperature during Oman's hot summer has never been officially recorded at the 50 degree (Celsius) mark, which, adhering to an International Labor Organization standard, would mandate the stoppage of outside labor. Non-Muslim workers are expected to respect the Ramadan month of daytime fasting by not publicly drinking or eating. Foreign workers find Oman very attractive for its employment opportunities and general living conditions.

f. Rights in Sectors with U.S. Investment: To date, U.S. firms have little direct investment in Oman. U.S. petroleum firms operating in Oman comply fully with Omani labor law.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis **--** 1997

(Millions of U.S. Dollars)

Category		Amount
Petroleum		52
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Primary & Fabricated Metals	0	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
Banking		(1)
Finance/Insurance/Real Estate		(1)
Services		0
Other Industries		0
TOTAL ALL INDUSTRIES		75

(1) Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.